PPG Industries, Inc.

First Quarter 2019 Earnings

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CORPORATE PARTICIPANTS

John Bruno - *Director, Investor Relations*

Michael McGarry - *Chairman and Chief Executive Officer*

Vincent Morales - *Senior Vice President and Chief Financial Officer*

Operator
Good afternoon, and welcome to the PPG Industries First Quarter 2019 Earnings Conference Call. My name is Andrea and I will be your conference specialist today. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key, followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one. To withdraw your question, you may press star, then two. Please also note today's event is being recorded.

I would now like to turn the conference over to John Bruno, Director of Investor Relations. Please go ahead.

John Bruno
Thank you, Andrea. Good afternoon everyone. Once again, this is John Bruno, Director of Investor Relations. We appreciate your continued interest in PPG and welcome you to our First Quarter 2019 Financial Results Conference Call. Joining me on the call from PPG are Michael McGarry, Chairman and Chief Executive Officer, and Vince Morales, Senior Vice President and Chief Financial Officer. Our comments relate to the financial information released on Thursday, April 18, 2019.

I will remind everyone that we have posted detailed commentary and accompanying presentation slides on the Investors Center of our website, ppg.com. The slides are also available on the webcast site for this call and provide additional support to the opening comments Michael will make shortly. Following Michael's perspective on the Company's results for the quarter, we will move to a Q&A session.

Both the prepared commentary and discussion during this call may contain forward-looking statements, reflecting the Company's current view of future events and their potential effect on PPG's operating and financial performance. These statements involve uncertainties and risks which may cause actual results to differ. The Company is under no obligation to provide subsequent updates to these forward-looking statements.

This presentation also contains certain non-GAAP financial measures. The Company has provided in the appendix of the presentation materials, which are available on our website, reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures. For additional information, please refer to PPG's filings with the SEC.

Now, let me introduce PPG Chairman and CEO, Michael McGarry.

Michael McGarry
Thank you John, and good afternoon everyone. Today we reported first quarter 2019 financial results. For the first quarter, our net sales were approximately $3.6 billion and our adjusted earnings per diluted share from Continuing Operations were $1.38. Two primary factors that impacted our adjusted EPS were lower global industrial production and significant foreign currency translation headwinds. On a constant currency basis our adjusted EPS was modestly higher than the prior year.

We are in the early stages of a margin recovery and delivered higher year-over-year operating margins for the first time in two years. This achievement is one quarter ahead of our internal target as we benefited from continued and further progress in selling price realization and strong cost management during the quarter.

For the first quarter our net sales in constant currency were flat with the prior year. Sales volumes were down about 3%, impacted by weaker global industrial production, most evident in the Automotive OEM end market and geographically in Asia. Also, half our sales volume decline related to prior year customer assortment changes in our U.S. Architectural DIY business. We will anniversary this assortment change after the second quarter.

Our selling prices were 2.6% higher, marking the eighth consecutive quarter of higher sequential pricing. In addition, we passed on a modest amount of business this quarter as we prioritized margin recovery.

Finally, net sales were negatively impacted by significant, unfavorable currency translation of more than 4% or about $160 million. We expect unfavorable currency translation to continue into the second quarter and be in the range of $130 million to $150 million.

Looking at some business trends for the first quarter, in our Performance Coating reporting segment, aerospace coatings had its fourth consecutive quarter of double-digit percentage sales volume growth led by above industry performance in all major regions. In our automotive refinish business, we continue to see flat industry demand in developed regions. As an example, in the U.S., automotive collision claims were down 1% in the quarter. Our Refinish business began the integration of the SEM acquisition, which is off to a great start and delivering above segment margins. And we are beginning the process of expanding our geographic commercial scope.

We were pleased that the Architectural coatings EMEA sales volumes increased for the second consecutive quarter. A combination of positive sales volumes and higher selling prices supported by mid single digit percentage net sales growth in the quarter.

Importantly, all major subregions were higher. As we discussed in the past, this business and this region deliver high incremental margins on increased volumes as we do not need to add any additional cost to support the growth.

Our sales volumes in the Mexican PPG-Comex business were slightly lower year-over-year driven by the timing of Easter holiday promotions which will occur in the second quarter. Paint sales in Latin America are historically higher in the weeks leading up to this holiday. We expect stronger sales volumes in the PPG-Comex business in the second quarter. During the quarter, we opened 25 new stores in Mexico and Central America.

Sales volumes in Architectural coating Americas and Asia-Pacific decreased due to lower net DIY sales of about $60 million, stemming from the prior year customer assortment changes. We did have positive year-over-year sales growth at our other two (inaudible) DIY customers for the quarter. Same-store Company owned sales growth in the U.S. and Canada was up a low single-digit percentage, impacted by soft market demand for most of the quarter.

Protective marine coatings continue to deliver excellent sales volume growth of more than 10% of the quarter.

In our Industrial coatings reporting segments, sales volumes were adversely impacted by our soft industrial activity in most of the major regions of the world. Automotive builds were significantly lower in China and Europe. In aggregate, our automotive sales volumes were lower by high single digit percentage, consistent with global industry build rates. The Automotive OEM

business made good progress in implementing selling price increases, realizing sequentially higher price in each major region of the world.

Softer global industrial production activity also impacted our general industrial coatings business, most notably in the coil and general finishes segment. As expected, our Packaging coatings sales volumes decreased modestly in comparison to strong, above market growth in the prior year driven by customer adoption to our INNOVEL interior canned coatings products.

From an earnings perspective, our first quarter adjusted earnings per diluted share of $1.38 was slightly be below the prior year quarter. Our earnings were negatively impacted by about $20 million of unfavorable foreign currency translation. As I mentioned earlier, excluding this impact, our adjusted earnings per diluted share were modestly higher than prior year.

During the quarter we continue to be impacted by raw material inflation which was nearly all carryforward inflation from 2018. This was our tenth consecutive quarter of raw material inflation. In addition, we incurred logistics and wage inflation in the quarter. Recent increases in crude oil prices and some supply disruptions in China and Texas could affect our input costs unfavorably in the next quarter.

Selling price increases 2.6% with comparable contributions from both of our operating business reporting segments. In addition, we made excellent progress on our business restructuring actions, delivering more than $20 million in cost savings during the quarter, pacing with our targeted savings.

Our effective tax rate was about 24% in the first quarter, which is higher than the 21% rate in the first quarter of 2018. The increase mostly relates to recognizing nonrecurring favorable discrete items in the prior year first quarter. We are still anticipating a full-year 2019 tax rate between 23% to 25%.

As we look ahead, we expect global economic activity to remain subdued in the second quarter. We anticipate improvement as the year progresses. Global automotive production is expected to decline in the second quarter compared to the second quarter of 2018, and general industrial demand is likely to be modest and uneven by end market and region in the second quarter.

Positive developments around regional and country trade disputes could spark a return to higher industrial activity in the second half of 2018. Specific to our business, we believe that more stable interest rates in the U.S. will help drive modest growth in the U.S. housing market and also favorably impact Automotive OEM sales.

For the second quarter, we expect U.S. industry automotive builds to be flat. Our U.S. Architectural business sales volumes will be down about $60 million due to the unfavorable customer assortment change. This will be the final quarter for this impact.

In Latin America, we anticipate higher sales volumes from (inaudible) demand and the PPG-Comex business.

Growth rates in Asia are expected to remain soft with some modest improvement compared to the first quarter. We expect our sales volumes in the Automotive OEM business to be stronger in the second half of the year based on recently implemented stimulus and easier comparisons to the prior year.

Overall economic growth in Europe is expected to remain week with no clear catalysts. We expect sales volumes in our Automotive OEM business to be lower than prior year and similar to the first quarter as decreases in industry production builds are expected to continue in the second quarter.

The delay of Brexit will probably continue to lead to higher levels of uncertainty and could impact consumer confidence and overall demand.

We expect our regional Architectural coatings business to produce favorable sales volumes in the second quarter.

We will continue to manage all elements of our business within our control to ensure that we remain competitive regardless of economic conditions.

In addition, the execution of our restructuring programs will carry on and we expect about $20 million of additional incremental savings to be realized in the second quarter.

As mentioned in our earnings press release, we continue to closely monitor the macro economic environment and we will be prepared to implement further cost reduction actions if necessary.

We've provided EPS guidance specific to the second quarter of 2019. This guidance is $1.76 to $1.86 which includes an unfavorable impact from foreign currency translation of $0.05 to $0.07 per share.

We remain fully committed to delivering on the full-year targets we announced in January for 2019 of 3% to 5% sales growth, and 7% to 10% of adjusted EPS growth, both excluding foreign currency translation.

Our focus on cash generation continues. In the first quarter our cash flow from operations was a net use of cash. This is consistent with our normal seasonal pattern of using cash in the first quarter to prepare for higher sales activity in the second quarter. In addition, this year we intentionally built inventories due to our preparation around Brexit and anticipation of a second quarter ERP conversion in our U.S. Automotive Refinish business. This ERP conversion is the last major conversion for all of our U.S. and Canadian businesses, with all the previous U.S. Coatings businesses successfully converting over the past two years.

In addition, the recent SEM and Whitford acquisitions added to our working capital. Our goal for full-year remains to reduce working capital as a percentage of sales compared to 2018.

We completed the Whitford acquisition in the first quarter and just recently announced the completion of the Hemmelrath acquisition. The three recently announced and completed acquisitions, including SEM, will add about $400 million of annualized revenue, and provide us with a broader range of products and technology to grow our business.

Accretive earnings acquisitions continue to be our cash deployment preference and our acquisition pipeline remains active.

In addition to acquisitions, we continue to invest organically in our business. Capital expenditures are expected to be about 3% of sales in 2019, and we continue to invest in research and development at similar levels as we have done historically.

We ended the first quarter with more than $800 million of cash and short-term investments, and we continue to have significant financial flexibility.

Finally, as I've stated at our annual meeting this morning, in our 135th year of business PPG's 47,000 employees around the world are focused on strengthening our position as the world's leading paint, coatings and specialty materials company. We remain steadfast in our commitment to provide innovative solutions for our customer's most precious challenges, deliver consistent growth, empower our people to grow to grow and succeed, create value for our customers, operate our businesses safely, sustainably and effectively while delivering value to our shareholders.

I'd like to thank and recognize the outstanding employees of PPG who help us deliver these objectives each and every day.

This concludes our prepared remarks. Once again, we appreciate your interest in PPG, and now, Andrea, would you please open the line for questions?

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star, then one on your touch-tone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two.

Our first question will come from Kevin McCarthy of Vertical Research Partners. Please go ahead.

Kevin McCarthy
Yes, good morning. Michael, I was wondering if you could expand upon your outlook for China. In the release you indicated that you are cautiously optimistic and expect a better back half of the year. Just wondering how much of that is predicated on a trade deal or are you starting to see stimulus related benefits? Any color there would be helpful.

Michael McGarry
Kevin, as you know, the 13th National People's Conference took place in the first quarter. The VAT for coatings was dropped from 16% to 13%. VAT for cars was dropped from 10% to 9%. The social insurance contributions were reduced, so there's a lot of what I would say—I don't know if total stimulus is the right word, but there's a lot of influence in the marketplace to lead to better performance.

As you know, we do see automotive numbers in real-time and so we're optimistic that the second half of the year is going to be better than the first half. We do have insight into, like I said previously, 90 days we have a fair amount of confidence; 60 days, 30 days we have high confidence, so we're starting to see the early signs of that.

Kevin McCarthy
Okay, that's helpful. Then, states-side, what is your outlook for U.S. Architectural and perhaps you could touch on the subjects of whether weather was an impact at all in your first quarter and what you're seeing in terms of the macro indicators for Architectural coatings demand in the U.S.?

Michael McGarry
Well, okay, NOAA, as you know, reported the wettest January and February around, but as we always tell our operating teams, we have to be able to function because somewhere else in the world you get good weather, always have a different put and take on that. We're not going to point to that. We do see our customers have good backlogs. We do have a slightly different mix than maybe some of our competitors as far as our stores, but overall we still think this is a very good market and we're still anticipating favorable comps going forward.

Kevin McCarthy
Thanks very much.

Operator
Our next question comes from Michael Sison of KeyBanc. Please go ahead.

Michael Sison
Hey, guys. Nice quarter.

Michael McGarry
Thanks, Mike.

Michael Sison
In terms of the second half of the year you've talked about maintaining your outlook for sales growth ex currency. Can you maybe walk us through by some of the sub businesses what type of growth you're going to see in the second half to sort of hit that full-year number?

Michael McGarry
Mike, if you look at the various pieces, let's start with Aerospace. We're going to continue to very, very good growth in that business. The underlying trends are very nice, so whether it's the build rates, whether it's the military, however you want to frame it, Aerospace is going to have a very solid quarter and back half of the year.

Refinish, we had a lighter comp numbers in the third and fourth quarter last year so we're going to be comping against a little bit easier.

PMC, as you saw from the first quarter are up double digits. If we continue to see recovery in that segment, Marine bouncing off the bottom, strong Protective sales in that segment, so I would tell you that we have a lot of confidence in that.

Probably the most encouraging is Architectural Europe. We tried to kind of lead you to this conclusion in prior calls. We were the first one to raise price in Europe. We raised it significantly. Last year we were given up share preferentially to get prices up. Now, our competitors are out, they're raising prices. Business that has historically been ours has been flowing back to us. We had a very good quarter in the first quarter. We anticipate that trend line continuing the second quarter as well as the back half of the year.

Comex, our team is just doing a phenomenal job in Mexico, Central America. I would tell you that we're getting price there. We're having customers trade up. Ever since we've owned Comex we've brought higher value-added products in there. That's been a positive.

Automotive OEM is a little bit of a wild card. We see the U.S. as relatively stable, 16.7, 16.8, somewhere in that range. Europe, kind of ticking down marginally but eventually they're going to have all these diesel things behind them and it's a solid market so we anticipate a better second half of the year. Then when you think about Asia, similar to what I said earlier, we will have very soft comps to compare against in the third and fourth quarter so that will be better. General industrial, more of the same. We see this stimulus having a little more positive impact.

I think there's a lot of things we would point to that gives us this confidence.

Michael Sison
Great. Then just a quick follow-up on 2Q earnings outlook. The year-over-year decline of EPS is larger than basically flattish in the first quarter, so are some of the headwinds more daunting in 2Q than they were in 1Q? It seems like maybe it should be less, but just curious on your thoughts there.

Vincent Morales
Hey Mike, this is Vince. Just a couple of key items to put forward. One, the customer assortment change that Michael talked about earlier, that actually was announced last year March 1. Once that was announced in 2018, we took out most of the support costs before we got to Q2, but we had a full sell-in in Q2. We had a take or pay with that customer in Q2 so they took a full allotment without the support costs, so that assortment is a bit more penal in 2019.

We did have obviously a strong Automotive market last year in Q2; we didn't see erosion in the auto market until Q3. Q2 is typically a higher seasonal quarter, so bigger impact than Q1.

Finally, in Q2 of last year, if you look at our corporate line, we started to make adjustments to our incentive compensation on our corporate line. I think our Corporate line was in the mid 20s, $20 million range last year, and we gave out a projection in the release it will be almost double that in Q2 of this year, so those are three of the primary factors that put this a little bit different than Q1.

Michael Sison
Okay. Great. Thank you.

Michael McGarry
Thanks, Mike.

Operator
Our next question comes from Ghansham Panjabi of Robert W. Baird. Please go ahead.

Ghansham Panjabi
Thank you. Good afternoon everyone.

Michael McGarry
Good afternoon.

Ghansham Panjabi
I guess first off on Auto Refinish and Europe, and some of the weakness you called out Michael in your prepared comments, I know you touched on a pre-buy in Europe that benefited 4Q, but how would you characterize overall market conditions in the region specific to Auto Refinish?

Michael McGarry
The market over there is not that much different than the U.S. You have a slightly softer, less collisions, down 1% or 2%, slightly more totals, but overall, we're still gaining the shops over there so that's a positive. Prices, we've been able to successfully raise price over there. I don't see the trends in Europe any different than I do anywhere else.

Now, obviously sequentially, second quarter will be better than first quarter for Refinish Europe because of the timing of the price increase, but I'm not concerned at all about Refinish sales volumes.

Ghansham Panjabi
Okay, then just sticking with Europe and Architectural EMEA, the last couple of quarters have been positive. They are smaller quarters on a relative basis. I know you mentioned the pricing dynamics and it sounds like just some reversion from a market regain perspective, but taken that in context with what you said, Michael, in terms of just European macro and Brexit, what do you think it is reasonable to expect for the market itself to grow in 2019 there?

Michael McGarry
We still have the same kind of perspective is that it's going to be a low-growth market, let's call it 0% to 2%. But I think what we're most excited about is the share that's flowing back to us, and I think the fact that we do see a number of countries, especially Eastern Europe, which we always view as a good sign when Eastern Europe is doing well, that's a very good market for us. They're having some strong numbers.

Probably a little bit of a surprise to us is U.K. and Ireland. They've outperformed our expectations. We thought with Brexit it would be a much slower market, but surprisingly we continue to grow nicely in that market.

Ghansham Panjabi
Perfect. Thank you so much.

Operator
Our next question comes from John Roberts from UBS. Please go ahead.

John Roberts
Thanks. First a short one and then I have a question on raw materials. Do you think you'll have the portfolio review by the outside consultants done in time for your Investor Day in early June, or do you think it's going to take until the end of the quarter?

John Bruno
John, we're looking to have something by the end of the quarter.

John Roberts
Okay. Then is the potential raw material disruption in Texas related to the tank farm fire that occurred in the shipping terminals, or is it something else? And how do we think about the volatility in oil prices. Some of your raw materials like solvents follow oil quickly, some a lot more slowly so they probably didn't change much in the quarter, and then customers often look at oil as kind of a leading indicator of price so I don't know if you had maybe more pushback on price early in the quarter and now you might have some tailwind here with oil coming back up?

Michael McGarry
John, the fire in Texas didn't impact anything we buy but what it does impact is the access to the other products that are in that terminal. So that's been the challenge. We regard that as a one quarter disruption.

As far as oil, remember we have—I always like to say we have like nine different buckets of raw materials. You've got half of them up and half of them down, one of them flat. Oil will impact solvents but most of our other raw materials are impacted by supply and demand and the derivatives, so obviously we're encouraged to see that propylene remains weak; ethylene, we view ethylene as a long-term oversupply market which will help us.

I would tell you we still remain firm on our raw material projection which is low single digits and that the back half of the year comps will be much easier on raw materials.

John Roberts
Thank you.

Operator
Our next question comes David Begleiter of Deutsche Bank. Please go ahead.

David Begleiter
Thank you. Michael, just on raws again, really TiO2, do you expect to see higher TiO2 prices in 2019 versus last year?

Michael McGarry
David, our response is the same one we gave in the fourth quarter that we don't think we need to be talking about TiO2 this year. You have some pluses and minuses, but overall it's a nonevent in our market basket. That would be the way we would describe that.

David Begleiter
Understood. Just on Auto OEM, Michael, very good job on pricing but obviously weak volumes. Are the weak volumes jeopardizing at all your price initiatives or your price traction in OEM?

Michael McGarry
David, I don't think so. I'm viewing this the same way we saw with Architectural. We were the first ones out with price. We're the most aggressive in trying to hold our customers accountable for us to recover our margins. We provide a lot of value to our customers, a lot of new technology, and obviously we're getting price across the world in that, so when our competitors are getting as aggressive as we are, if they do that, then we would expect to see some of that volume flow back. Right now, it's more important for us to get price and that's our number one objective.

Vincent Morales
David, it's Vince. I think our customers clearly understand that for calendar year '17 and calendar year '18 we got little to no price so we're still well in arrears in terms of value capture for what we delivered to them.

David Begleiter
Thank you very much.

Operator
Our next question comes from Bob Koort from Goldman Sachs. Please go ahead.

Chris Evans
Good afternoon. This is Chris Evans on for Bob. On pricing, eight quarters in a row of improvement, recognizing your Industrial coatings margins are still pretty depressed, how much more price is needed there to recover the lost profitability, and then maybe more specifically, does the consolidated 1Q pricing you printed this quarter represent a highwater mark for the year as comps get harder throughout?

Vincent Morales
Hey Chris, this is Vince. I'll take the second part of your question. We're still (inaudible) pricing in Q2. We're still doing surgical and targeted pricing in not only in Industrial segment but in other businesses. I would definitely not consider that a highwater mark. I think you alluded to it properly, and we're starting to stack price on top of price. We've still got some need to recover in certain businesses or regions, and we're going to continue to push to try to fully recover this over the course or balance of this year.

John Bruno
Hey Chris, this is John. Maybe on your cumulative question, if you look at the past 10 quarters, raws are up cumulative in the amount of low teen digit percentage, and pricing is maybe up a little bit more than 3%. Basically, we say we need to get half of the raw material inflation to be even, so that's the delta we're looking at.

Chris Evans
Very helpful. Then just sort of stacking that on top of the raw material commentary, you put up a pretty good—the best margin performance year-over-year in quite a while. How does the cadence of your margins sort of trend as the comps in your raw material basket gets lighter and you continue to push price.

Michael McGarry
I think the way I would answer that, Chris, is that Vince said that we're all recognizing that when you compare margins of '17 and '18 they're below our '16 levels; we need to get back to those levels. The sales teams are well aware of the gap that still exists and the marching orders have not changed. We're going to continue to work hard to capture that gap. Our customers know the gap still exists and it's up to us to get the additional price but also provide additional value to our customers so it's a win-win.

Chris Evans
Very clear. Thank you.

John Bruno
Thanks, Chris.

Operator
Our next question comes from Christopher Parkinson of Credit Suisse. Please go ahead.

Christopher Parkinson
Great. Thank you very much. It appears you guys were successful in getting regional OEM pricing all synchronized positively, which I'm sure your team is pleased with. Can you just comment on whether or not this is simply a functionality of just prior price initiatives, and

obviously everything you've been fighting for a while, or any additional pricing actions for 1Q? Just basically asking on what assurances the investment community has that the trend is sustainable moving forward. Thank you.

Vincent Morales
Yes, Chris. Vince. For us, we've worked extremely diligently the past 12 to 18 months to secure the pricing that you're seeing here in Q1. We fully expect that carry forward for the balance of the year. Again, we do have additional targeted pricing coming in, not only in Auto OEM but other businesses. Again, our emphasis is to recover our margins fully. But to Michael's point, we've got to make sure we're demonstrating to our customers the value we bring.

Christopher Parkinson
Got it. Then also just on the capital allocation front, given your stock has had a bit of a run here, and where you see leverage, how are you assessing share repurchases on a go-forward basis versus mid and potentially large size M&A? Thank you.

Michal McGarry
We said coming into the year it's a pretty active acquisition pipeline, and our preference right now remains to vet those acquisitions before we make any considerable decisions regarding share repo, but our active pipeline will keep us busy for a little bit of time and we'll determine whether those are value-creating or not, or whether we're considering them for our portfolio. If that doesn't work out we'll reassess how we're going to deploy our cash.

Christopher Parkinson
Thank you very much.

Michael McGarry
Thanks, Chris.

Operator
Our next question comes from P.J. Juvekar from Citi. Please go ahead.

P.J. Juvekar
Hi. Good morning.

John Bruno
Hi P.J.

P.J. Juvekar
Michael, this China stimulus, automotive stimulus went into effect I think on April 1. Is that why you feel more positive on second half? I think a lot of companies are talking about second half recovery. Do you see any momentum in second quarter now that you think would last into second half?

Michael McGarry
P.J., we do see how our customers are preplanning and so we have insight into that, so that's one item that gives us a little more confidence. Clearly we see the current production levels that we see in April, but that's 15 days. Remember, China has had, if I remember right, nine or 10 consecutive monthly declines. Ten monthly declines in a row, so I'm not going to jump out in front of this right now. Let's wait until we see how the actual numbers turn out.

P.J. Juvekar
Okay. Then on the Architectural business, it seems like your store business is growing at or better than the market, so I guess my question is why not accelerate the store growth by opening more stores? The national retail stores and independent stores seem to be lagging here, so why not grow your own store base? Thank you.

Vincent Morales
Hey P.J., Vince. I don't know that we're growing better than the market; we didn't say that. We do have definitional differences with some of our competitors. We include industrial coatings in our Industrial segment. Other folks include those differently. Our industrial business was, as Michael mentioned, lighter this quarter, in Q1, so again, I would not say we're outpacing the market.

For us, we go to market with a multichannel approach; we've always done that. We do well certainly with The Home Depot and other major merchandisers. Our dealer channel, albeit a lower growth channel, is a good channel for us with a low cost to serve, and we certainly support our trade network as much as possible. We're doing selective additions, and we're doing selective pruning in all those channels.

P.J. Juvekar
Thank you.

Michael McGarry
Thanks, P.J.

Vincent Morales
Thanks, P.J.

Operator
Our next question comes from Frank Mitsch of Fermium Research. Please go ahead.

Frank Mitsch
Hi. Good afternoon. This is Le'Veon Bell sitting in for Frank. Michael, in a difficult macro environment, in the first quarter here you were able to post a nice result, especially relative to the guidance that you guys had issued. I was just curious what were the key factors PPG to be able to outperform those expectations?

Vincent Morales
Frank, this is Vince. A couple of things that differ from the beginning of the year. One, we certainly secured pricing at a level that we had hoped, a little bit better than that. The second issue, as we were very aggressive on our cost management given the uncertainty in the economic backdrop, and we also have seen currency come in a little better than we anticipated at the beginning of the year, but still negative year-over-year, so those are the three primary factors that deviate favorably from our guidance.

Frank Mitsch
All right, so we might want to dial all three of those factors in for Q2 relative to the $1.76, $1.86. Just kidding.

On the restructuring side, you posted you said $20 million or I think better than $20 million in savings during Q1, and you said that you'd get that again in 2Q, or at least I think you said that.

Where do you stand on 2019? I think I heard you guys talk about $80 million in savings in 2018 and around $70 million in 2019? What sort of expectations should we expect out of the cost cutting actions that you guys have underway?

John Bruno
Frank, this is John. Our number one priority is to complete the restructuring initiatives we've identified. Those alone will probably get us close to $70 million, and we have additional initiatives that are not necessarily restructuring that are other cost areas throughout the business, throughout the world that will get us to the $80 million. We still feel very comfortable with that number.

Frank Mitsch
Thank you so much.

John Bruno
Thanks, Frank.

Michael McGarry
Thanks, Le'Veon.

Operator
Our next question comes from Don Carson of Susquehanna Financial Group. Please go ahead.

Don Carson
Yes, thank you. A couple of questions on Architectural. You mentioned that obviously you'll lap the Lowe's loss in Q3, but how about your Home Depot business and some of the new brands you have there? What kind of you growth can we expect as we get into the second half of the year?

Then on EMEA, can you remind us where you are in terms of volumes relative to your 2007 peak, and what we should think of as incremental margins in that business as you load more volume?

Michael McGarry
Don, I'll take the first half and I'll let Vince take the second half. We started shipping Home Depot early May, so we'll have three months of Home Depot versus two months in the second quarter. Obviously there was a lot of confusion in the marketplace, Olympic was at both Lowe's and Home Depot. This year it's only at Home Depot, so there will still be some people looking around to make sure they find the worlds greatest stain, Olympic. But I would envision we will continue to have positive comps. I won't speculate about how much because I think that's Home Depot's business, but the relationship is very good. They are the best retailer in that space and we are very privileged to be a partner with Home Depot.

Maybe, Vince, you want to …?

Vincent Morales
Yes. In terms of your question, Don, around where we are versus the 2007 peak, we're down still almost 20% in volume for the whole Architectural Europe region, so we still have not seen—this is really the first signs of recovery we've seen since the Recession in our volumes. That's a holistic comment. We've certainly seen differences by countries. As Michael mentioned, the U.K. has been a good country for us for the past couple of years, but we've seen other markets

that have continued to wane. Holistically, we're down just under 20% cumulative since 2007. We are recording very high incremental margins, as Michael mentioned in his prepared remarks. These are coming in somewhere in the vicinity of 35% to 40%, so that volume is extremely lucrative to us when it does occur.

Don Carson
Thank you.

Michael McGarry
Thank you.

Operator
Our next question comes from Arun Viswanathan of RBC Capital Markets. Please go ahead.

Arun Viswanathan
Hi guys. Sorry about that. Good afternoon. Just a quick question for you guys on the margins. Obviously a little bit better than what we had thought. How would you characterize them versus your own expectations, and you mentioned three things as far as slightly better FX, price and costs. Could you kind of bucket that out for us on Q1 and how those three would potentially progress through the year?

Michael McGarry
I think, Arun, cost management is something we're watching our order book every day. We're taking necessary actions business by business, region by region based on the order book. Q1 was very choppy in terms of the macro, so several of our businesses took immediate and swift action to minimize any cost. If we see the volume come back I think we'll have a more traditional cost structure.

From a pricing perspective, the only thing we did was get price a little earlier than we anticipated. We thought some of this would drag on into Q2, but the level of pricing that we achieved is what we were targeting; we just got it a little earlier than what we had anticipated in our guidance.

With respect to currency, I'll let you guys, you guys are the experts on currency. We just make paint, we don't predict the currency markets, so I'll let you guys opine on that.

Arun Viswanathan
Okay, thanks. Then as a follow-up, your discussions around margin recovery, do you guys have targets as to where you want to get back to as far as percent margins? If I went back to the '08 to 2010 period it looks like they suffered by 500 basis points and they actually recovered within a year or two. Is it fair to assume that something like that could happen in Industrial, because we've seen that kind of deterioration over the last couple of years? Thanks.

Michael McGarry
Just generically speaking we're targeting 2016 as a marker. There's a lot happened in the world from '16 to '19, so it's not going to be a straight linear comparison, but 2016 is the point in time where we're using it as a marker from our margin perspective.

We have work to do, as you pointed out. We were targeting to get at margin parity by the middle of the year. We were glad to get there in Q1, and then we're hoping to improve on our margins year-over-year in the back half of the year.

Arun Viswanathan
Just lastly on that point, would you need incremental volume growth to get back to full parity, or continue that trend? Or could you potentially continue to see margin recovery even in those kind of sluggish volume environments? Thanks.

Michael McGarry
Well, there's two sides to that equation. We'd certainly welcome volume; that makes the story a lot easier. In a nascent volume environment we would expect supply and demand to work in our favor on the raw materials side.

Arun Viswanathan
Thanks.

Michael McGarry
Thank you.

Operator
Our next question comes from Steven Haynes of Morgan Stanley. Please go ahead.

Steven Haynes
Hi guys. Thanks for taking my question. Just wanted to quickly clarify, you're talking margin recovery came in ahead in 1Q '19, and you're commenting that it will be up in Q2 19, (inaudible) the second half of '19. Can you just comment on whether or not the first quarter was an inflection for margins and how we should be thinking about that for 2Q?

Vincent Morales
This is Vince again. Just to reiterate, I think we were anticipating getting the margin parity in the first half of the year, so by the end of the second quarter. Again, we got there a little earlier. Let's be clear, we're still several hundred basis points below our targets, so we still have a lot of recovery underway and we're going to start working our way back there for the balance of this year.

Steven Haynes
Then if I could just get a quick follow-up, too. The press release talked about you guys passing on some business. Could you just maybe talk a little bit about what categories you are foregoing business in?

Michael McGarry
Automotive is clearly one. Industrial is another. Those are the two biggest areas, and China and Asia in general, what we've said is getting price in China is not easy. You have to do it a lot of times by backing up your request for price by saying that if you won't meet the—meeting the need that we have we're happy if you take your business somewhere else, and then they get serviced at I would say a lower level, but then they're happy to come back and pay the higher price. Or if they're missing the technology, which is generally the biggest thing they miss, so they come back to us and say, 'You know, we really need that better technology,' whether it's the waterborne, whether it's the products that help their productivity in their plant or whatever it is, that generally is important because once it's showing up in their manufacturing line and once their manufacturing people have to account for it, that's when the purchasing people have less power.

Steven Haynes
Okay. Thank you.

Operator
Our next question comes from Patrick Fischer of Barclays. Please go ahead.

Mike Leithead
Hey guys, this isn't Patrick. This is Mike Leithead on for Duffy.

Michael McGarry
Hi Mike.

Mike Leithead
Hey, just circling back to volumes, volumes seem to have decelerated the last three quarters, even if we exclude some of the customer assortment changes. Can you maybe just talk about how we should think about volume trending into 2Q and the back half? Then maybe I was hoping you could quantify how much volume or the volume impact from the business that you passed on in the quarter.

Michael McGarry
I think I'll pass on saying how much we passed on. I think that it varies by business and it varies by region, but what I will tell you is that in the second quarter we're still anticipating a little bit softer on the volumes, but when you look at the third and fourth quarter you're seeing us comping against a different environment from the third and fourth quarter of '18, plus we see the stimulus impact is going to be a positive. We see the U.S. continuing to be a good market. Mexico is continuing to be a good market, and some slight recovery in our Architectural business in Europe. So, I think there's enough things out there that give us a good confidence level that our predictions are going to be relatively accurate.

Vincent Morales
Mike, if I could add, I think the volume erosion, if you look over the past four quarters or three quarters as you mentioned, has really come in the Industrial segment. That segment had been producing 3%, 4% volume growth up until really the third quarter of last year, and everything we've seen in that particular segment has really been macro driven. Obviously with China Auto coming off, European Auto coming off, the halo effect of that around the General Industrial businesses that get affected by kind of Tier 1, Tier 2 suppliers, that's all macro. Again, we're going to anniversary some of that as we go into the back half of the year here.

Michael McGarry
Mike, just to put that in perspective, we had 13 quarters in a row of positive volume in our Industrial Coatings business, so I'm not going to—I don't like this quarter, but we're still looking at our sales teams doing a very good job out in the marketplace.

Mike Leithead
Got it. That's helpful. Then if I could drill into Aerospace, strong solid green, and when I look at your slide and above market growth in every region, I was hoping maybe you could talk a little bit more about what's driving that growth, whether it's product mix or new share gains, or other factors driving the above market growth there?

Michael McGarry
That's actually a factor of everything. Our sealants business continues to gain share. Our coatings business continues to gain share, and certainly our transparencies business has done a phenomenal job of winning new programs left and right. Every one of those is a positive. You have commercial doing very well, military is doing very well. The only semi-soft would be the general aviation, but our biggest customer who is very large in that general aviation market is winning share, so we're also affiliated with the right customers.

We did factor into our second quarter guidance some of the most recent commentary from one of the large OEM plane makers, but overall, we're going to have a very solid second quarter and a record full year in Aerospace.

Mike Leithead
Great. Thanks guys.

John Bruno
Thanks, Mike.

Operator
Our next question comes from Garik Shmois of Longbow Research. Please go ahead.

Garik Shmois
Thanks. Now that margins have recovered year-over-year and pricing looks like it's (inaudible) I was wondering if there's any lessons over the last couple of years that you can take forward if inflation does again start to ramp, so that you can offset inflation maybe faster than expected?

Vincent Morales
I'll let Michael answer the question but I want to make sure for our sales people on the phone, our margins are not recovered. We've been very clear on that; we still have room to go. Go ahead, Michael.

Michael McGarry
Clearly, as I've tried to explain the last time, there were two events that clearly impacted the rate of initial recovery. The first one is our friends in Cleveland bought Valspar. I think the Valspar team, without speaking for one of my peers, they were a little slow off the block. That was a challenge. We were trying to buy our friends in the Netherlands. At that time they immediately went into a mode of saying they were going to grow 4% volume, and that doesn't work in an environment where raw materials are going up; you need to be focused on getting prices up. The competitive environment is a challenge, at that point.

Clearly, a couple of us got off the dime and we're moving quicker than the others. Now everybody—not everybody but most everybody is on—we're looking at their margins and getting a lot of pressure from their shareholders and they're trying to recover margins. I think that's one lesson learned.

Maybe the other lesson learned is we need to stick to it and maybe we should have walked away from some volume a little bit earlier. Maybe that's a lesson learned.

Garik Shmois
Thanks for the color. Follow-up question (inaudible) going down $10 million from $55 million to

$60 million previously now to $45 million to $50 million. Is that part of the cost savings program, or is there something else going on?

Vincent Morales
Garik, that's our normal seasonal trend. Our Corporate costs are historically higher in the first quarter for some different reasons, and then the second through fourth quarter normally are at our lower level but similar.

Garik Shmois
Okay. Helpful, thank you.

Michael McGarry
Thank you.

Operator
Our next question comes from Jeff Zekauskas of JPMorgan. Please go ahead.

Jeff Zekauskas
Thanks very much. Nippon Paint seems to have agreed buy Dulux and Australia. Was that property that you were interested in and you didn't want to pay as much as they paid, or was that just not a property that interested you at all?

Michael McGarry
Jeff, this is Michael. What we always tell everybody is on every acquisition in the Coatings, Paint and Specialty Products space that we have, we're always interested in looking at everything, and just because we don't get something doesn't mean that we aren't interested, but what I will tell you is that if we were always winning then people would be concerned, but at the same time every company makes their own decisions about what is the right price to pay and how does that impact their shareholders. I would say different people have different answers for the exact same acquisition. All I will tell you is that we try to be active, we try to look at everything, but for PPG right now we're very comfortable where we are.

Vincent Morales
Jeff, this is Vince. I'll just add, and I think you know this, of course, but we have a very good Architectural business in Australia and a growing business there, so we are on the continent.

Michael McGarry
And we're number two on the continent.

Jeff Zekauskas
Okay. Can you talk about what your operating cash flow was in the quarter, and are you having a very different experience in your raw material price changes in the United States versus your raw material price changes in the offshore markets, in that it seems that propylene is pretty weak in the U.S., but the oil price is really lifted in the offshore market, so are we seeing inflation in the offshore markets and deflation in the domestic markets? Again, what was your operating cash flow in the quarter?

Michael McGarry
Jeff, I'll take the first one and Vince will jump on the second one. Our operating cash flow was a use of cash, I believe it was $66 million use, which is less of a use of cash than we had in the

first quarter of last year. We'll have a full cash flow statement released here shortly when our Q is filed.

Vincent Morales
Hey Jeff, I do want to mention something again. We were pleased with the results in the quarter, but one of the metrics we were not please with was our—we had a little bit of growth in working capital. A couple of the causation factors there: we along with most other companies built a lot inventory around Brexit and now that that's been extended out we'll be able to work that down. Michael mentioned we're going live with a new ERP system in our Refinish business in the U.S. We've built inventory ahead of that as a contingency. Both the SEM acquisition and the recently closed Whitford acquisition, we obviously have to step up that inventory as part of that acquisition accounting, and until that inventory flows through cost of sales that's a high level of inventory at a retail price.

All that being said, we've got to get our working capital down to prior year levels. We had the teams in last week talking about that specifically, so we're focused on that. Again, we're better cash flow than last year but still more room to go.

With respect to raw material inflation, we don't see any differences really at this point by geography. We think it will be more driven by supply and demand as opposed to the things you mentioned. The supply demand situation is different in each of the major regions, and that's typically, especially in a light volume environment that's typically more of a predictor of which way the raw materials may go by region, but we haven't seen anything to date.

Vincent Morales
Jeff, the only thing I'd add is Latin America South, so if you go all the way down to the southern part, that's more U.S. dollar based, so the weakness in the currency can have impact, but no real material. When you think about our total sales in Latin America South, that's not a material number, so you should not assume that there's a material difference between the regions.

Jeff Zekauskas
Okay, great. Thank you so much.

Michael McGarry
Thanks, Jeff.

Operator
Our next question comes from John McNulty of BMO Capital Markets. Please go ahead.

John McNulty
Thanks for taking my question. Michael, you had indicated I believe not only were there supply disruptions in Texas but it looked like there may have been some in China. Can you articulate what products are affected and what's necessarily disrupting that supply, and also the timing on when you think it will be remedied?

Michael McGarry
Well, let's start with the original issue, going back a year ago. The Blue Skies Initiative for China in 2018 led to a lot of disruption, and we saw coming into '19 that they had delegated from Beijing to the provinces the enforcement of environmental actions, and so they were much more focused on employment, and so supply was much more readily available, but once they had the explosion in Jiangsu province, this has led that province to get much more aggressive on some

of the underperformers and so the impact to things that you probably won't see in your numbers, but think about the antibacterial products that you might buy to make sure the paint in the cans are healthy, that would be one. There are some unique epoxies that would be coming out of there, that would be another one. But overall, what we see is that it will take a little while for them to re-sort themselves out. What we're paying most attention to is what the enforcement level is going to be post the next quarter 2, quarter 3, whether it's just going to be contained in Jiangsu province or whether they're going to get much more aggressive, if you will, and reinstitute the controls out of Beijing; that's what we're paying attention to.

John McNulty
Got it. Thanks very much for the color.

John Bruno
Thanks, John.

Operator
Our next question comes from Stephen Byrne of Bank of America Merrill Lynch. Please go ahead.

Stephen Byrne
Yes, thank you. We've seen PPG sales reps in the Home Depot paint aisle and I just wanted to ask you what's the scale of that initiative and is it getting any traction with respect to either driving more paint in Home Depot or specifically PPG brands versus Behr.

Michael McGarry
All major suppliers to all the major home centers have sales reps that are covering their stores. Dependent upon the agreement with the various vendors, you get X amount of sales reps per X number of stores. The good news is I think the Home Depot team has a very solid approach where everybody is focused on the customer and driving conversions in the store, and that's the metric that they hold us and our competitors accountable for, and I think our teams have been doing a very good job in Home Depot plus some of our other retail partners. As I said on my opening remarks, we had positive comps at the other large DIY chains, which is good. We're not doing anything different than what our peers are doing.

Stephen Byrne
Vince, the active acquisition pipeline. Given your commitment in Home Depot, is that pipeline that you're looking at include any potential shelf space expansion within Home Depot to branch out into different products within the retail DIY channel?

Vincent Morales
I wouldn't call it acquisition possibility. Again, we work with Home Depot on what products and what value we can bring to them on a product-by-product basis, so, again, I wouldn't consider that to be any type of an acquisition relationship.

Stephen Byrne
Okay, thank you.

Operator
Our next question comes from Mike Harrison of Seaport Global Securities. Please go ahead.

Mike Harrison
Hi, good afternoon.

Michael McGarry
Hi Mike.

Mike Harrison
Michael, I was wondering if you could comment in a little more detail on the weakness that you saw in the Latin America Architectural market during the quarter. I know you mentioned that the timing of the Easter holiday was a factor. Could you maybe talk about other factors there and whether you've seen those trends improve?

Michael McGarry
The only other factor that is relevant is really the fact that we have done a lot of value selling up the chain. When we bought Comex there's been some additional technology brought in. There's a lot more premium product being sold to—the coverage of the premium products is better than what I would call the value products, so that leads to a little bit of a share—not share, volume numbers being negative but when you look at the overall impact to the EBIT, it's very positive. Even though our volume was marginally down, we actually had a record quarter for the PPG Latin America team and we're anticipating the same.

Overall, the timing of Easter—there's two major holidays in Mexico, Easter and Christmas. Christmas doesn't move but Easter does and that's the impact. We kicked off our Easter promotions a couple of weeks ago, and so all that falls in the second quarter instead of the first quarter.

Mike Harrison
Got it. Then in the Protective and Marine business, it looks like that Marine piece is growing faster than the protective piece. Wondering if you could just comment specifically on Marine and the growth rate that you're seeing in those key markets. I feel like you've said in the past you've said you've had pretty good visibility on what's going on in the Marine business, so is the strength there going to be sustainable?

Michael McGarry
We started picking up orders in the second half of '18. They're generally painting ships 12 to 18 months after the order comes in, but this is off a very low base. The Marine business is probably down 60% from its peak, so we're coming off a very low bottom. Overall, the business though is positive, both in Protective and Marine, that lead that double digits and we anticipate that trend line continuing.

Mike Harrison
Thank you very much.

Operator
Our next question comes from Dmitry Silversteyn of Buckingham Research. Please go ahead.

Dmitry Silversteyn
Good afternoon. Thanks for taking my call. A quick question on the construction market and I know you've sort of pushed off the question of weather and how big of an impact it had on construction, but other companies were not so shy about citing weather as a delaying factor in getting the construction season in North America ramped up. Have you seen anything improving

in terms of March and the first couple of weeks of April here that can give us confidence that that market is coming back and whatever built up demand and backlog your contractor customers and stores are experiencing will be fulfilled over the next couple of quarters?

Vincent Morales
Yes, Dmitry, this is Vince. One of the issues we had with the comparison in early April is the Easter timing. Easter fell very early in April last year, so really the proxy is diluted in order for us to compare. You normally can get a good (inaudible) compare by now but it's a bit diluted. I would say we're not displeased with what we've seen in April, but it's too early to make a call on whether we're seeing some pick up from March.

Dmitry Silversteyn
Okay. All right. Thanks, Vince. The second question, in the three acquisitions that you've done, that you're carrying into 2019, what kind of revenue contributions should we be thinking about for these businesses? Are we talking about 1% to 2% incremental growth, organic growth, or is it going to be something lower than that?

John Bruno
Dmitry, this is John. I'll take that. Annualized these three acquisitions total about $400 million of annual revenue. The majority of that is going to be in Industrial Coatings. Whitford and Himmelrath both sit in the Industrial Coatings segment. In our initial guidance we provided in January, we said about $250 million benefit this year. That could be a hair higher because we have been able to complete both acquisitions maybe a little bit faster than we originally thought.

Dmitry Silversteyn
Okay, that's helpful. Then finally, on the Refinish side of the business, you talked about the overall market being flat, a little bit of about a 1% decline or so in collision rates in Europe and U.S. Your business was down volume wise, you talk about low single digits so let's say 1% to 2%. Is that in line with sort of what the market declines you saw or are you still kind of suffering from being the price leaders and therefore we should see that performance improve as the year unfolds and you recapture some of this business?

Michael McGarry
I think last year we were a skosh below the market, 1% maybe? But overall when I look at our customer base and what I see in the market, and the fact that we're still having a number of shop wins, I feel comfortable that we're relatively close to the market.

Dmitry Silversteyn
Got you, okay. Thank you very much.

John Bruno
Thanks, Dmitry.

Operator
Our next question comes from Laurence Alexander of Jefferies. Please go ahead.

Laurence Alexander
Good afternoon. Two quick ones then. First, for the share gains above the market in Aerospace, is your spread against the market getting wider as you look at the wins that you have in the pipeline, or should we think of it as roughly steady state? Secondly, on raw materials, can you give us a little bit of a longer term kind of perspective on how you're thinking about your raw

material chain, because several parts of the channels suppliers appear to be talking a lot more than they used to about higher hurdle rate for reinvestment, and so are you worried about or are you seeing any risk of capacity in your raw materials lagging your expectations for demand growth over the next say three to five years?

Michael McGarry
Well, I'm not worried about them investing right now because their incremental margins are very high. If you look at most of our suppliers—I won't name names; you can do it yourself—but they've had a very good run the last two years. I'm not worried about them from that standpoint.

I think our short-term perspective, we said it would be low single digits, on the low side of low single digits; we still see that, we're still holding to that, and so I think we're in the right spot, Laurence.

Vincent Morales
Laurence, your first question on Aerospace, again, I think what we've—this is an industry that values technology, so it really plays into our sweet spot. I think we've been able to work with our customers once they gain share, but we're gaining more than our share of new products or new products that they're putting into the marketplace, so that's really where we're winning in Aerospace.

Laurence Alexander
Thank you.

John Bruno
Thank you.

Operator
Our last question today comes from James Sheehan of SunTrust Robinson Humphrey. Please go ahead.

James Sheehan
Thank you. Is it correct to say that the Whitford and Himmelrath acquisitions, those businesses are below average PPG margins, and if so, how long do you think it would take for you to expand those margins to average levels?

Vincent Morales
Hey Jim, Vince. As Michael said in his prepared remarks, SEM is performing at above their segment margins. That was a highly, highly accretive acquisition for us, good array of products, very well recognized brand in the marketplace and that's performing above segment.

Whitford and Himmelrath will come in as traditional acquisitions below segment margins. It will take us 12 to 18 months to scale those up as we work through the synergy capture.

James Sheehan
Perfect. Regarding M&A and global Coatings, how would you characterize deal multiples in the sector? Do you think they're mostly frothy or are you seeing some reasonable numbers today?

Vincent Morales
Jim, it really differs based on geography, based on market, end market. It's hard to call a singular answer to that question. There's certainly things that we looked at and we probably

won't act on or didn't act on, and there's other things, based on synergies and post multiples that we have an interest in. It really just depends. It's episodic by what's out there today. Again, I'll just reiterate there's certainly activity in the marketplace.

Michael McGarry
Jim, the other thing I would add is we bought SEM, Whitford and Himmelrath and each one of them had a different multiple, but the way we look at it, post synergy what does that multiple look like? They were all in the single digit range, so you have to really parse these things into the acquisition, what you're paying, what your synergies are, what your growth is, and so there's a lot of other factors. You just can't look at just the multiple.

James Sheehan
Thank you very much.

Operator
Our next question comes from Kevin Hocevar of Northcoast Research. Please go ahead.

Kevin Hocevar
Hey, good afternoon everybody.

John Bruno
Hey Kevin.

Kevin Hocevar
Vince, you mentioned pricing, that you realized pricing a little bit quicker than you thought here in the first quarter, and you also mentioned that it might not be the highwater mark of the year. Does that suggest that in the second quarter you'll see a bit of a higher year-over-year growth rate in pricing? Then I think on last quarter's call you mentioned about 2% of the 3% to 5% constant currency sales growth would be from price. Do you view that as having a little bit of upside based on how the year started?

Vincent Morales
Two things. We do expect higher absolute dollar pricing in Q2 versus Q1, but I'll remind you last year we started to get price throughout the year, so again, we're stacking on top of a harder comp. The percentage remains to be seen, Kevin, but on a pure stacked dollar basis we definitely expect higher Q2 pricing than in the prior year.

Kevin Hocevar
Got you. Then you mentioned ready to take action if need be on the cost savings front. Is that just simple blocking and tackling in areas where there might be weakness, or is there PPG has done $80 million, $100 million type cost savings programs, a couple of those over the last couple of years, or is that something bigger like that?

Vincent Morales
I think those comments are primarily focused on what you would call traditional blocking and tackling. We can't hide from the fact that the economy out there is choppy. There's a lot of things that aren't within our control, and if we see something going sideways or down, even in a more Draconian way, we'll take whatever decisive actions we need to take, and that could be deeper than blocking and tackling but I think the mention we had in the prepared remarks was really around blocking and tackling.

Kevin Hocevar
Okay. Thank you very much.

Operator
This concludes our question and answer session. I would like to turn the conference back over to Management for any closing remarks.

John Bruno
Thank you, Andrea. This is John Bruno again. I'd like to thank everyone for their time and interest in PPG. If you have any further questions, please contact our Investors Relations department. This concludes our first quarter earnings call.

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.